

Message Text

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ACTION SS-15

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E.O. 11652: GDS

TAGS: MASS IS

SUBJ: FMS POLICY-ISRAELI MILITARY EXPENDITURES

REF: STATE 257643

1. IN MEETING ON NOV 17 WITH YAACOV LIPSCHITZ, ECONOMIC ADVISER TO MINISTER OF DEFENSE, EMBOFF LED OFF WITH DESCRIPTION OF FMS POLICY PER REFTEL. LIPSCHITZ' INITIAL REACTION WAS THAT IF THE USG WERE TO APPLY THIS POLICY LITERALLY, IT WOULD CAUSE GREAT HARDSHIP FOR ISRAEL. HE ADDED, HOWEVER, THAT SINCE THE GOI'S REQUEST FOR FOLLOW-ON SUPPORT HAD BEEN FORMULATED IN CONJUNCTION WITH DOD, ISRAELI PROCUREMENT SHOULD IN FACT MEET USG GUIDELINES. (NOTE: ISRAELIS CLEARLY CONSIDER THEIRS A SPECIAL CASE).

2. WHEN ASKED ABOUT NEXT YEAR'S DEFENSE BUDGET, LIPSCHITZ REPLIED THAT THE MOD HAD REQUESTED A FIVE PERCENT INCREASE IN REAL TERMS. HOWEVER, THE FINANCE MINISTRY'S DRAFT PROPOSAL PRESENTED TO THE CABINET LAST SUNDAY PROJECTED A FIVE PERCENT DECREASE IN REAL TERMS. MOREOVER, THE BUDGET PROPOSAL CONTAINS A PROJECTED RATE OF INFLATION OF 29-30 PERCENT DURING GOI FY 1977/78. LIPSCHITZ ESTIMATED THE RATE OF INFLATION IN FY 1977/78 AT 33-34 PERCENT WHICH WOULD MEAN A REDUCTION IN THE DEFENSE BUDGET IN REAL TERMS. HE BELIEVED A COMPROMISE WOULD BE REACHED IN WHICH THE DEFENSE BUDGET WOULD NOT CHANGE IN REAL TERMS.

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3. ANOTHER PROBLEM WAS THE \$300 MILLION DIRECT DEFENSE

PROCUREMENT IN EUROPE, FOR WHICH THE MOD HAD REQUESTED AN INCREASE TO \$400 MILLION. HOWEVER, THE MINISTRY OF FINANCE'S BUDGETS DEPT HAD CONTINUED TO "STRAIGHT LINE" THIS ITEM AT \$300 MILLION, FOR THE FOURTH SUCCESSIVE YEAR. IN ADDITION TO DIRECT DEFENSE EXPENDITURES OF \$1,800 MILLION (\$1,500 MILLION IN THE U.S. AND \$300 MILLION IN EUROPE) ISRAEL WILL HAVE TO MAKE \$645 MILLION IN ADVANCE PAYMENTS TO THE USG IN 1976. INCLUDING \$400-\$500 MILLION WORTH OF INDIRECT DEFENSE IMPORTS, ISRAEL'S DEFENSE BURDEN IN FOREIGN EXCHANGE COSTS IS ALMOST \$3.0 BILLION THIS YEAR.

4. IN RESPONSE TO QUERY ABOUT HOW ISRAEL PLANNED TO UTILIZE THE \$1.0 BILLION FMS FINANCING EXPECTED THIS FISCAL YEAR, LIPSCHITZ EXPLAINED THAT ALMOST \$500 MILLION WOULD BE USED FOR FOLLOW-ON SUPPORT, WITH \$500 MILLION REMAINING FOR NEW PROCUREMENT. THE ITEMS RECENTLY APPROVED BY THE ADMINISTRATION WOULD COST APPROXIMATELY \$200-\$250 MILLION. THEIR PROCUREMENT, HE SAID, WOULD MEAN FURTHER POSTPONING OTHER ITEMS AND ILLUSTRATED WHY ISRAEL NEEDED \$1.5 RATHER THAN \$1.0 BILLION IN U.S. MILITARY ASSISTANCE.

5. LIPSCHITZ ESTIMATED ISRAEL'S DEFENSE EXPORTS AT \$280 MILLION THIS YEAR, DISCLAIMING A RECENT NEWSPAPER REPORT THAT THEY WOULD TOTAL \$320 MILLION. ALTHOUGH THESE EXPORTS WOULD DOUBLE THIS YEAR, LIPSCHITZ DOUBTED THAT THEY COULD INCREASE BY MORE THAN 50 PERCENT IN 1977. MOD ESTIMATES THE VALUE ADDED COMPONENT IN DEFENSE EXPORTS AT ABOUT 50 PERCENT. THE VALUE ADDED IN AMMUNITION IS RELATIVELY HIGHER BUT IN ELECTRONICS IT IS ONLY ABOUT ONE THIRD.

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